

Message Text

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E.O. 11652: N/A
TAGS: ECON LU
SUBJECT: PRIME MINISTER THORN'S STATE OF THE NATION ADDRESS

1. SUMMARY: IN KEEPING WITH A TRADITION HE INTRODUCED FOUR YEARS AGO, PRIME MINISTER GASTON THORN MADE AN ANNUAL STATE OF THE NATION SPEECH TO THE LUXEMBOURG PARLIAMENT ON MARCH 9. THE SPEECH FOCUSED ON LUXEMBOURG'S ECONOMIC SITUATION AND THE GOVERNMENT'S PLANS FOR DEALING WITH THE CONTINUING CRISIS IN THE STEEL INDUSTRY. THORN REPORTED A GENERAL ECONOMIC SLOWDOWN IN 1977 WITH GNP GROWTH AT ABOUT TWO PERCENT; A GROWTH IN CONSUMER SPENDING OF TWO PERCENT IN VOLUME; A SLOWDOWN IN PUBLIC SECTOR SPENDING; AND CONTINUING STAGNATION IN FIXED AS WELL AS PRODUCTIVE CAPITAL INVESTMENT. HE ADDED THAT INDUSTRIAL PRODUCTION SHOWED VIRTUALLY NO GROWTH (0.5 PERCENT) FROM 1976, AND THAT THE BALANCE OF TRADE DEFICIT CONTINUED TO GROW, APPROACHING NINE MILLION FRANCS IN 1977 VERSUS A SEVEN BILLION FRANC DEFICIT IN 1976. THORN SAID HE SAW NO PROSPECT OF GROWTH OR IMPROVEMENT IN THE BALANCE
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OF TRADE IN 1978, GIVEN THE IMPORTANCE OF THE STEEL INDUSTRY IN INDUSTRIAL PRODUCTION AND EXPORTS. HE ADDED THAT AN INCREASE IN INVESTMENT OF ABOUT TEN PERCENT (IN VOLUME) IN 1978 WILL BE PART OF THE GOVERNMENT'S EFFORTS TO MAINTAIN EMPLOYMENT. A SUMMARY OF THE HIGHLIGHTS OF THORN'S ADDRESS FOLLOW. (FULL TEXT POUCHED TO THE DEPARTMENT (EUR/NE). END SUMMARY.

2. POPULATION AND EMPLOYMENT. THORN SAID UNEMPLOYMENT WILL REMAIN A SERIOUS PROBLEM IN 1978. THERE ARE CURRENTLY FIVE THOUSAND EXCESS WORKERS IN LUXEMBOURG'S STEEL INDUSTRY (OUT OF A TOTAL OF 22,500 STEEL WORKERS) AND SOME SEVEN HUNDRED NEW JOB APPLICANTS ARE EXPECTED ON THE LABOR MARKET EACH YEAR UNTIL 1984. AFTER 1984 A DECLINE IN THE LABOR FORCE OF ABOUT SIX HUNDRED WORKERS A YEAR IS EXPECTED BECAUSE OF OVERALL POPULATION DECLINE. THEREFORE, THORN SAID, THE GOVERNMENT MUST USE CAUTION IN ENCOURAGING JOB CREATION NOW WHICH MAY REQUIRE ADDITIONAL FOREIGN WORKERS AFTER 1984 (NOTE: ALMOST 30 PERCENT OF THE LABOR FORCE IN LUXEMBOURG IS FOREIGN AND NATIVE LUXEMBOURGERS ARE SAID TO HAVE THE LOWEST BIRTH RATE IN THE WORLD, IE, 1.3 CHILDREN PER/FAMILY.)

3. INFLATION. A BRIGHT SPOT IN THE ECONOMIC PICTURE, THORN SAID, IS THE DROP IN THE INFLATION RATE FROM 9.8 PERCENT IN 1976 TO 6.7 PERCENT IN 1977. HE CAUTIONED AGAINST EXCESSIVE OPTIMISM BECAUSE OF AN EXCEPTIONALLY LOW 3.3 PERCENT INFLATION RATE (ANNUALLY ADJUSTED) REGISTERED IN FEBRUARY OF THIS YEAR, BUT SAID HE EXPECTS A CONTINUING DECLINE TO ABOUT 5.4 PERCENT IN 1978. WITHIN THE EEC ONLY WEST GERMANY HAS A BETTER RECORD, THORN ADDED.

4. JOB CREATION PROSPECTS. THORN REVIEWED THE GOVERNMENT'S EFFORTS TO ENCOURAGE FOREIGN INVESTMENT AND INDUSTRIAL DI-

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VERSIFICATION. HE INDICATED THAT OVER ONE THOUSAND NEW JOBS COULD RESULT FROM GOL CONTACTS WITH FOREIGN FIRMS AND COMPANIES. MOREOVER, HE SAID, SOME 2,700 STEEL INDUSTRY JOBS WILL BE PRESERVED THROUGH STRUCTURAL REFORMS IN THE MMRA STEEL COMPANY WHICH WILL BE COMPLETED IN APRIL 1978.

5. AGRICULTURE. THORN SAID PRELIMINARY STATISTICS FOR 1977 SHOW A TWENTY PERCENT GROWTH IN AGRICULTURAL INCOME AS COMPARED TO 1976. HE SAID THE LUXEMBOURG GOVERNMENT, IN KEEPING WITH EC POLICY, IS EMPHASIZING STRUCTURAL IMPROVEMENTS, MODERNIZATION AND PRODUCTIVITY INCREASES IN THE AGRICULTURAL SECTOR.

6. PUBLIC SECTOR INVESTMENTS. CREDITS FOR LOCAL PUBLIC AUTHORITY INVESTMENT WILL GROW 8.9 PERCENT IN 1978 THORN SAID, AND THE PUBLIC WORKS MINISTRY WILL RAISE ITS SPENDING 62.9 PERCENT OVER THE 1974 LEVEL (THE YEAR THORN'S GOVERNMENT TOOK OFFICE).

7. ENERGY. THORN REMINDED PARLIAMENT THAT THE ENERGY MINISTRY IS CONTINUING DISCUSSIONS WITH ELECTRICITY UTILITIES IN NEIGHBORING COUNTRIES TO ASSURE THE BEST POSSIBLE PURCHASE ARRANGEMENTS UPON EXPIRATION OF THE PRESENT CONTRACT WITH

RWE OF WEST GERMANY. HE EMPHASIZED THAT ADDITIONAL STUDIES IN THE FIELD OF NUCLEAR POWER CONFIRM THAT THE TOWN OF REMERCHEN IS THE BEST POTENTIAL SITE IN LUXEMBOURG FOR AN ATOMIC POWER PLANT.

8. INDEXATION. THORN POINTED OUT THAT ONE OF THE GOVERNMENT'S MAJOR EFFORTS TO CONTAIN INFLATION IS A REFORM OF THE NATIONAL INDEX. THE NEW INDEX WILL BE IMPLEMENTED IN 1979 AND WILL INCLUDE THREE HUNDRED ITEMS AS COMPARED WITH ONE HUNDRED AND SEVENTY THREE ITEMS IN THE CURRENT INDEX. THE GOVERNMENT, THORN SAID, HAS BEEN CAREFUL TO INSURE A BETTER SELECTION AND WEIGHING OF ITEMS IN THE INDEX.

9. PRIORITIES AND PROSPECTS. THE PRIME MINISTER IDENTIFIED
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HIS GOVERNMENT'S PRIORITIES AS FULL EMPLOYMENT, ADQUATE INCOME FOR THE UNEMPLOYED AND PROTECTION OF WORKERS' STANDARD OF LIVING. THORN SAID THAT DESPITE RATHER GLOOMY ECONOMIC PROSPECTS, LUXEMBOURG STILL BOASTS MAJOR ASSETS INCLUDING A TRADITION OF SOCIAL COOPERATION, POLITICAL STABILITY AND NATIONAL SOLIDARITY. HE DESCRIBED THESE ASSETS AS VITAL FOR A SMALL COUNTRY AND ARGUED THAT THEY MORE THAN BALANCE THE DISADVANTAGES OF SMALLNESS AND THE ABSENCE OF A LARGE INTERNAL MARKET.
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